FEDERAL RESERVE BANK OF SAN FRANCISCO

# Community Investments Vol. 9, Issue 2 Welfare Reform: A Summary of Changes and Implications for Community Reinvestment

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Interview with Valerie Street, Homeless and Community Services Coordinator, Alameda County, California

The ultimate impact on communities as a result of the enactment of welfare reform is mere speculation at this point. However, welfare reductions will undoubtedly result in greater community need and new opportunities for financial institutions to become involved in the health and well-being of their communities.

The decision to "end welfare as we know it," as promised by President Clinton, has ignited the dismantling of a welfare institution that has taken more than five decades to erect. This dismantling has created a wave of reaction throughout the public sector. Reactions to welfare reform range from heightened enthusiasm to fear and trepidation.

The parameters of welfare reform are outlined in the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. Most significantly, PRWORA eliminated *Aid to Families with Dependent Children* (AFDC), and replaced it with *Temporary Assistance for Needy Families* (TANF). States are required to submit a "state plan" by July 1997, when

TANF becomes effective for all states. Most states have already submitted general plans that requested extensions for the AFDC program.

The three prominent differences between AFDC and TANF are as follows:

1. AFDC was an entitlement under which anyone who could demonstrate "need" (as defined by federal legislation) was entitled to AFDC benefits. Under TANF, there is no federal entitlement and demonstrated need is not sufficient to obtain benefit assistance. However, under the regulation, states can choose to pass their own entitlement program.
2. AFDC was a federal-share program wherein states shared their AFDC costs with the federal government and the federal share was based on state expenditures with no cap. Under TANF, federal funds are distributed through block grants to the states, essentially capping the federal share to this program.
3. AFDC was not time-limited. Families could receive assistance as long as they were eligible. TANF recipients may only receive benefits for a total of five years during their lifetimes, unless states decide to set *lower* lifetime limits.

**Welfare Reform: Implications for Community Reinvestment In One Community**

On the following pages, *Community Investments* examines Alameda County, the seventh largest county in California, to see how welfare reform is affecting local perceptions about the future of community development. We spoke with Valerie Street, Homeless and Community Services Coordinator for Alameda County. Ms. Street has an extensive legal background and more than ten years experience in city and county government policy development and administration.

*CI: Why welfare reform now?*

*VS:* Welfare reform is rooted in the national political perception that "Great Society" programs of the 1960's, like entitlement programs, food programs and public housing have not only failed to eradicate poverty in America but have actually aided in the breakdown of family values.

Some believe there is a growing underclass of millions of people who, because of their so-called behavior deficiencies, are trapped in generational cycles of welfare dependency, drugs, alcohol, crime, illiteracy and disease. Welfare reform is an attempt to move this "underclass" from government assistance into jobs.

The Personal Responsibility and Work Opportunity Act of 1996 (PRWORA) attempts to change dependent behavior by time-limiting benefits and requiring work as a prerequisite for public assistance. PRWORA has set the parameters for the shape and future administration of federal public assistance programs. Theoretically, PRWORA is a good idea; but the poverty problem in this country is both a problem with the welfare system *and* a structural problem inherent in our economy. The current welfare system does not encourage or promote self-sufficiency. So, to the extent job training and child care are included in the new system, people will have greater opportunity to gain skills and education to compete in the job market.

*CI: Are you saying that employment is at the root of welfare reform?*

*VS:* Yes. Welfare reform requires that recipients move toward self-sufficiency through job training and employment. For nearly a million families, this will be a major challenge due to barriers related to educational deficiencies, lack of available and affordable child care, and the lack of available jobs that pay living wages. This is especially true for people who don't have the skills, abilities, and education those jobs demand. Those with minimal skills may have opportunities for employment only if the public and private sectors join together in a concentrated and realistic economic strategy focused on enterprise and job creation.

*CI: How will welfare reform impact Alameda County?*

*VS:* Welfare reform is going to have a great impact on this County--most immediately, the impact will be negative. Here is the magnitude of the problem: Alameda County is larger than many states, and over 16% of the County's population of 1.4 million will experience major changes in health care, nutrition, cash aid, employment assistance, child care, and social service support as a result of welfare reform. We anticipate increased incidences of homelessness and hunger. Therefore, we have an immediate need for more affordable housing and also increased access to hunger prevention and nutrition services for poor people who no longer qualify for food stamps.

In Alameda County there are 44,700 people who receive Food Stamps in conjunction with General Assistance and MediCal--6,800 of these people are unemployed, able-bodied adults without children. Under the Act, these people will be first to lose their benefits as they attempt to find jobs that may not currently exist. Many of these people are already actively seeking employment and are a large segment of the temporary, minimum-wage and part-time work force.

Under the Act, Alameda County's local economy stands to lose $126 million annually in federal support as a result of welfare reform. The legal immigrant population in Alameda County makes up a significant percentage of the population receiving benefits through the various welfare/public benefit programs. With the onset of welfare reform, there is virtually no safety net for legal immigrants. In fact, it is this population that will be hardest hit by welfare reform in this country.

The following are the numbers of people reliant on public assistance programs in Alameda County alone, including the numbers of immigrants who receive public assistance, by the type of assistance received:

- 99,460 children and adults receive AFDC plus food stamps and Medicaid--12,000 of these individuals are legal immigrants.
- 47,650 aged, blind, and disabled people receive Supplemental Security Income (SSI) plus Medicaid through the Social Security Administration--13,185 of these people are legal immigrants.
- 70,350 individuals receive "medically needy only" Medi-Cal benefits--6,760 of these individuals are legal immigrants.

Overall, there will be fewer benefits and less support for poor individuals and families. In addition, low-income communities will suffer because the families who live in these communities tend to shop locally. As purchasing power is reduced, families won't have the funds to purchase goods and services, and local merchants will suffer severe business losses. Strategic investments in small business development and growth is critically needed.

*CI: What are the concerns of the public sector in Alameda County?*

*VS:* Community developers in Alameda County have been speculating on what the new welfare reforms will mean to affordable housing and economic development. These are efforts that have traditionally relied on complex layered financing supported by partnerships between public and private capital. There is concern that further reductions in incentive- and subsidy-based federal programs such as HOME, CDBG, and tax credits will aggravate problems brought about by welfare reform. Given reduced public assistance, I believe communities will begin to place even greater pressure on local financial institutions to fill resource gaps that will be created by the lack of federal financial support in the areas of job creation, affordable housing, and small business development in local cities and in older suburban areas impacted by disinvestment. These areas are also grappling with issues like base closures and corporate downsizing. Strong public and private partnerships that increase community revitalization will offer thousands of people at risk of chronic unemployment and homelessness tremendous hope. Partnerships between banks and communities can create win-win propositions.

*CI: Discuss a few of the CRA opportunities in Alameda County.*

*VS:* Alameda County is brimming with untapped human resources. Financial institutions could use their financial resources to create economic business possibilities to employ the millions of people who will soon have limited options. Unfortunately, for those who are competing for jobs, the time-limited benefits under welfare reform make no real provisions for realistically bridging the delay many individuals will face in securing viable employment. As a result of welfare reform, we anticipate a growing need for efforts that revitalize communities through the creation of affordable housing, increased nutrition availability/access and jobs creation:

1. *Affordable Housing Development*

A greater number of marginally-housed individuals and families will be made homeless as a result of the loss of SSI and tenant-based subsidies. Therefore, Alameda County and many other counties throughout the U.S. will require investment capital to help build or renovate existing shelter facilities. Flexible underwriting for first-time homebuyers will also assist low-income families in purchasing homes, thereby assuming mortgage payments that are more stable and less costly than paying long-term rent.

2. *Increased Access to Nutritional Resources*

It will become much more difficult for the poor--particularly elderly immigrants and the children of impoverished legal immigrants --to meet their nutritional needs as a result of significant cuts in the food stamp program and onerous restrictions on program eligibility. Banks could assist the County, and specifically the City of Oakland, by helping increase access to healthy food. For example, community-owned and operated grocery cooperatives in the underserved communities of West and East Oakland provide fresh produce and other nutritional foods to many seniors and poor families who lack the transportation necessary to shop in grocery stores located outside their neighborhoods. If banks choose to invest in and lend to these types of businesses, we could create public/private partnerships which combine bank capital and City CDBG funds to establish bulk buying systems that help people stretch their dwindling food dollars. Banks could also establish on-site ATMs and other banking services in food co-ops to improve access to services for community residents.

3. *Business Development that Promotes Job Creation*

To meet the awesome job demand for soon-to-be ineligible welfare recipients, the County must increase its support and development of local industry. Specifically, banks could invest in the creation of local industry which might include technology, entertainment, tourism and financial services. This is a daunting task because many banks have no presence in poor areas throughout the County. Some banks have disinvested in low-income communities by closing branches and others do not open branches in these communities. As a result, these same banks have made very few small business loans in poor neighborhoods which could leverage other resources to stimulate business and job creation. Poor communities that are without commercial banking services rely on check-cashing service companies that charge exorbitant fees. This only further reduces the available income residents have to purchase goods and services from local merchants.

I believe greater investment in community-based intermediaries such as the National Community Economic Development Center and the Community Bank of the Bay could help increase access to credit and capital in Alameda

County's low-income areas. Intermediaries could act as catalysts for mutual cooperation in job development, training, and placement in the spirit of fostering the health and growth of local industries and small businesses.

*CI: Any closing thoughts?*

*VS:* To ensure progress, local communities and governments will need to help financial institutions better recognize opportunities for increased investment and lending to support community revitalization. We need capital and credit to build infrastructure and to support long-term economic development efforts. We also need financial institution investment in businesses to build and expand industries that promote the creation of jobs for the unemployed and improve opportunities and earnings for the marginally employed. In Alameda County--indeed throughout the country--there is tremendous opportunity and need for community and economic development in the wake of welfare reform.

**About the Authors:**

**Cynthia Burnett** has eighteen years experience in nonprofit organizational development and administration. Her community activism and policy advocacy work have earned her acclaim from the California Governor's office, the California State legislature and several community-based organizations in California. Ms. Burnett joined the Federal Reserve Bank as a Community Investment Specialist in February, 1997 to expand her capacity in promoting community reinvestment efforts.

**Valerie Street** is an authority in the development of comprehensive, integrated service systems and delivery. Additionally, she has been a leader in the development of community, faith-based and governmental collaborations addressing major social service, employment, and economic development challenges facing metropolitan urban areas. Ms. Street is a law school graduate of Case Western Reserve in Cleveland, Ohio, and has lived and worked in the San Francisco and Oakland Bay Area for over 20 years.